



February 14, 2007

VIA MESSENGER

Honorable Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

Re: ISO New England Inc., Capital Budget Quarterly Filing for Fourth Quarter of 2006; Docket No. ER07-_____-000

Dear Secretary Salas:

ISO New England Inc. (the “ISO”) hereby submits, pursuant to Section 205 of the Federal Power Act (“FPA”), Part 35 of the Rules and Regulations of the Federal Energy Regulatory Commission (the “Commission”), and the provisions of Section IV.B.6.2 of the ISO New England Inc. Transmission, Markets and Services Tariff, FERC Electric Tariff No. 3 (the “Tariff”),¹ an original and six copies of its Capital Projects Report (the “Capital Projects Report”) and schedule of the unamortized costs of the ISO’s funded capital expenditures (the “Unamortized Costs Schedule”) for the quarter ending December 31, 2006 (collectively, the “Fourth Quarter 2006 Report”). The ISO respectfully requests that the Commission accept the Fourth Quarter 2006 Report as filed, effective January 1, 2007.

I. INTRODUCTION

Section IV.B.6.2 of the Tariff provides:

Consistent with the requirements imposed by the Commission in Docket No. ER02-2153, the ISO will file quarterly reports with the Commission specifying, by project, the ISO’s prior year spending on multi-year projects, year to date spending and a forecast of the next calendar year spending. In addition, the ISO will file a schedule of the unamortized costs of the ISO’s funded capital expenditures at the end of the quarter and the allocation of those costs to Schedules 1, 2 and 3. Such reports will be filed within forty-five (45) days at the end of each quarter and posted on the

¹ Capitalized terms used but not otherwise defined in this filing have the meanings ascribed thereto in the Tariff.

ISO's website. All quarterly capital budget and expenditure filings will be filed pursuant to, and subject to Commission review under, Section 205 of the Federal Power Act.

Pursuant to these requirements, the ISO encloses herein its Capital Projects Report and Unamortized Costs Schedule covering the Fourth Quarter of calendar year 2006. The first chart included in Attachment 1 constitutes the ISO's Capital Projects Report for the quarter ending December 31, 2006. The second chart included in Attachment 1 constitutes the Unamortized Costs Schedule, which sets forth the unamortized costs of the ISO's funded capital expenditures, as of December 31, 2006, and the allocation of the costs to Schedules 1, 2 and 3 of Tariff Section IV.A.

II. DISCUSSION OF THE FOURTH QUARTER REPORT

The Fourth Quarter 2006 Report provides actual capital expenditures incurred by the ISO through 2005 on multi-year capital projects, year-to-date spending during 2006, and forecasts for such expenditures for 2007. The ISO's forecasted annual capital budget, which the Commission recently accepted for 2007 at \$20.0 million,² cannot predict with perfect accuracy the exact manner in which the ISO will incur capital expenditures.³ For example, ISO capital project priorities may change during the course of the year, and it is therefore likely that the actual distribution of capital spending within the ISO's capital budget will shift. The ISO's quarterly filings keep stakeholders and the Commission apprised of such adjustments.

The ISO vetted the changes discussed herein through the stakeholder process by presenting a draft form of this filing letter and attachments to the NEPOOL Budget & Finance Subcommittee (the "Subcommittee"), which the ISO posted on its website on February 8, 2007. The ISO also discussed the contents of the draft filing letter and attachments at the February 12, 2007 Subcommittee meeting.

The following discussion highlights some of the changes the Fourth Quarter 2006 Report reflects from the last quarterly report. The discussion below highlights: (i) newly chartered⁴ capital projects; (ii) projects with expected approved total budgets at or less than \$250,000; and (iii) non-project capital expenses.

² See Commission letter order issued to ISO New England Inc. in Docket No. ER07-115-000 (Dec. 12, 2006).

³ See also ISO New England Inc., 2007 Capital Budget and Capital Budget Quarterly Filing for Third Quarter of 2006, Transmittal Letter at 16, Docket No. ER07-115-000 (Oct. 31, 2006) (explaining how the capital budget may need to be adjusted as the year progresses).

⁴ All capital projects, prior to approval, need to complete a project charter. This charter documents the project goals and objectives, schedule and milestones, and budget. Before approving a new capital project, the ISO's senior management team reviews each project charter.

A. Newly Chartered Capital Projects

This section identifies and describes certain projects the ISO recently chartered and began implementing.

1. Forward Capacity Market – Total Project Costs estimated at \$8,115,700 with 2006 actual expense at \$1,491,700 and 2007 expected spending at \$6,624,000

The project charter for the FCM is being incrementally updated as the market design continues to evolve through the Stakeholder process. The ISO expects to file FCM market rules with the Commission on February 15, 2007 for approval. However, considering that the settlement agreement has a timeline of Q1 2008 for the first auction, the project team is working on those aspects of the project that ensure that the timeline is met. The current total project budget reflects estimated costs through the end of 2007. The ISO expects the budget for this project to continue to fluctuate until the market rules have been filed and approved by the Commission. At that point in time, a final project charter for the initial phase of the FCM project (through the implementation of the primary auction in Q1, 2008) will be submitted for approval.

It is important to note that the FCM project will have several additional phases to it through 2010. More specifically, the FCM settlement agreement calls for the design and development of several other market features, such as reconfiguration auctions, winter availability measures, performance incentives and changes to real-time offers for de-listed resources. Additionally, the ISO settlement systems need to be substantially modified. The capital budget to implement these additional features and the changes to the settlement systems will be confirmed after the functional and software design specifications have been completed. The ISO anticipates that the work for these additional features will continue between 2008 and 2010.

2. Daylight Savings Time - Total Project Costs estimated at \$674,700 with 2006 actual expense at \$124,700 and 2007 expected spending at \$550,000

The Energy Policy Act of 2005 amends the Uniform Time Act of 1966 by changing the start and end dates of Daylight Saving Time (“DST”) beginning in 2007. This change will affect the accuracy of all electronic clocks with pre-programmed dates for adjusting DST. The ISO, therefore, must identify and analyze how this change will impact the ISO’s automated systems.

For this project, the ISO will initiate a work effort to conduct an analysis of impact on various automated systems, modify and/or rewrite impacted DST modules, test modifications, and implement the software modifications to the impacted systems.

3. FCM Simulation – Total Project Costs estimated at \$500,000 with 2006 actual expense at \$100,000 and 2007 expected spending at \$400,000

The ISO and the Electric Power Research Institute (EPRI) are developing a market simulator to evaluate the Forward Capacity Market auction. The ISO intends to use the market simulator to help assure that the FCM market rules are complete and will work as anticipated. The ISO has already taken delivery of the EPRI developed software that simulates bidding in the Forward Capacity Market. The ISO will continue working on the simulator during 2007 to ensure adequate testing of the market design.

4. Enhanced Financial Assurance and Billing Policies Phase II - Total Project Costs estimated at \$421,300 with 2006 actual expense at \$121,300 and 2007 expected spending at \$300,000

The Financial Assurance project, as estimated in the report covering the third quarter of 2006, was \$250,000. Subsequent to this estimation, the ISO project and design team finalized the software design. This completed design identified a larger and more complex development and testing effort, causing the ISO to increase its total project estimate to \$421,000. The primary cost components for the Financial Assurance II project consist of (a) Enhancements to Credit Limit Functionality (modifications to the Financial Assurance Management systems) and (b) Enhancements to Virtual and FTR Financial Assurance Functionality (modifications to the Settlement Management Systems / Management Information Systems). The increased costs identified as part of the final software design are primarily related to the development of the Settlement Management Systems and Management Information Systems.

5. E-Notification – Total Project Costs estimated at \$364,900 with 2006 actual expense at \$185,900 and 2007 expected spending at \$179,000

The project scope was increased to include additional security, high availability and operational requirements to the base software product. The operational enhancements primarily dealt with the management of data and messages. These additional requirements necessitated a delay in the project from 2006 into 2007. The associated implementation costs (from the standpoint of software development and testing and schedule delays) cause the increase in the project budget.

B. Other Projects with expected total approved budgets of \$250,000 or less

In the fourth quarter of 2006, the ISO also chartered a new project called Business Activity Monitoring. The Central Logging and Monitoring system in the ISO's Information Technology Department requires a more robust monitoring capability in order to provide accurate and timely insight into the status of cross system business processes. The implementation of AptSoft CEO/BAM technology will improve logging capability and anomalous event detection; reduce the time required to implement corrective actions for detected anomalous events; improve decision-making on anomalous events; improve the capability to

modify the monitoring policies on complex event processing; reduce maintenance costs on monitoring software; and improve customer service by reducing customer exposure for undetected application problems. This project is relatively small in scale. The ISO spent \$73,700 on it in 2006, and forecasts that it will spend \$30,000 of the Commission-approved \$20.0 million 2007 capital budget to finish this project.

C. Non-Project Capital Expenses

Non-Project capital expenditures fund furniture and fixtures, non-project related hardware and software purchases, and the internal capitalized labor necessary to code System Improvement Requests, also known as “SIRs.” The “SIRs” are generally a result of requests from market participants and the ISO’s operational groups to improve system functionalities. In the Fourth Quarter 2006 Report, the ISO reduces the 2007 budget for non-project capital spending by \$500,000 (from \$3,500,000 to \$3,000,000) to fund the new Daylight Savings Project.

III. ADDITIONAL SUPPORTING INFORMATION

The Filing Parties submit the following additional information pursuant to Sections 205 of the FPA and 35.13 of the Code of Federal Regulations:

35.13(b)(1) – In addition to this transmittal letter, the ISO provides the following materials:

- This Filing Letter;
- for the Fourth Quarter ending December 31, 2006, the Capital Projects Report and the Unamortized Costs Schedule (Attachment 1); and
- a list of the governors and utility regulatory agencies in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont to which a paper copy of this filing has been sent (Attachment 2).

35.13(b)(2) – The ISO requests that the Commission accept the Fourth Quarter 2006 Report as filed, effective January 1, 2007. Since the information in the Fourth Quarter 2006 Report involves the period ending December 31, 2006, a waiver of the 60-day prior notice requirements is appropriate, as is the requested effective date. That effective date will also avoid any issue regarding a potential lag in the “backstopping” accomplished through the ISO’s capital budget quarterly reports.

35.13(b)(3) – An electronic copy of this filing is being provided to all NEPOOL Participants, and a paper copy of this filing is being provided to the Non-Market Participant Customers and to the governors and electric utility regulatory agencies for the six New England states that comprise the New England Control Area. This transmittal letter and the accompanying materials have also been sent to the governors and electric utility regulatory

agencies for the six New England states which comprise the New England Control Area, and to the New England Conference of Public Utility Commissioners, Inc. The names and addresses of these governors and regulatory agencies are shown in Attachment 3. In accordance with Commission rules and practice, there is no need for entities identified on Attachment 3 to be included on the Commission's official service list in the captioned docket unless such entities become interveners in this docket.

35.13(b)(4) – A description of the materials submitted pursuant to this filing is contained in this transmittal letter.

35.13(b)(5) – This transmittal letter and supporting materials provide a statement of the reasons the Fourth Quarter 2006 Report should be accepted by the Commission.

35.13(b)(6) – The ISO's approval of these changes is evidenced by this filing. The ISO also notes that the Budget and Finance Subcommittee and the Participants Committee voted to support the 2007 Capital Budget.

35.13(b)(7) – The ISO does not have any knowledge of any relevant expenses or costs of service that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

35.13(c)(1) – Sales, services, and revenues cannot reasonably be projected at this time.

35.13(c)(2) – There is no other rate schedule on file for which a comparison of charges would be appropriate.

35.13(c)(3) – No specifically assignable facilities have been or will be installed or modified in order for the Commission to accept this filing.

IV. COMMUNICATIONS

Correspondence and communications regarding this filing should be addressed to the undersigned for the ISO as follows:

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*Persons designated for service

Honorable Magalie R. Salas

February 14, 2007

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V. CONCLUSION

For the reasons stated herein, the ISO requests the Commission to accept the Fourth Quarter 2006 Report as filed, effective January 1, 2007.

Please acknowledge receipt of the foregoing by date-stamping the enclosed extra copies of this filing and returning it to the courier delivering this filing.

Respectfully submitted,

Maria A. Gulluni
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Enclosures

ATTACHMENT 1

ISO New England Inc.
Capital Projects Schedule
For the Quarter ended 12/31/2006
(\$000's)

<u>Description</u>	<u>Prior Year(s) Spending (1)</u>	<u>2006 YTD December Spending</u>	<u>2007 Cost to Complete</u>	<u>Total Project Costs (2)</u>
Capital Projects - Approved Charters				
. Forward Capacity Market	-	1,491.7	6,624.0	8,115.7
. EMS Upgrade	-	1,100.1	800.0	1,900.1
. Daylight Savings Time	-	124.7	550.0	674.7
. FCM Simulation	-	100.0	400.0	500.0
. Enhanced Financial Assurance & Billing Phase II	-	121.3	300.0	421.3
. E-Notification	-	185.9	179.0	364.9
. Business Activity Monitoring	-	73.7	30.0	103.7
. ASM-Reserve Market	11,497.9	8,361.6	-	19,859.6
. Website Redesign	8,795.4	374.2	-	9,169.5
. Building Transition	626.6	2,360.5	-	2,987.1
. EAI - Automated Flagging	2,072.3	333.3	-	2,405.6
. Oracle 10G and MDB Hardware Upgrade Project	-	1,550.0	-	1,550.0
. Winter Readiness II	-	828.3	-	828.3
. Forward Capacity Market Transition	-	553.9	-	553.9
. Security Constraint Unit Commitment (SCUC) Eval	153.3	110.0	-	263.3
. Information Retrieval & Reporting	-	189.5	-	189.5
. Document Management System	-	140.1	-	140.1
. Small Resource Reserve Pilot	2.0	89.3	-	91.4
. Learning Management System	-	87.1	-	87.1
. Model on Demand	-	83.5	-	83.5
. Regional Black Start	-	83.2	-	83.2
. FERC EQR	-	73.6	-	73.6
. Market Simulator Phase II	-	61.2	-	61.2
. CELT Project	-	59.2	-	59.2
. Enhanced Financial Assurance & Billing Phase I	-	58.5	-	58.5
. Corporate Inquiry Management (ITIL)	-	37.9	-	37.9
. Document Scanning	-	18.2	-	18.2
Sub Total Projects with Approved Charters	23,147.6	18,650.7	8,883.0	50,681.2
Capital Projects in Planning				
. L.I.P.A. 1385	-	5.7	1,250.0	1,255.7
. Outage Scheduler	-	211.5	1,000.0	1,211.5
. Combined Cycle Project	-	-	900.0	900.0
. Other Emerging Work Projects	-	(25.9)	932.0	906.1
Sub Total Capital Projects in Planning	-	191.4	4,082.0	4,273.4
Capital Projects in Conceptual Design				
. Long Term FTR's	-	-	1,250.0	1,250.0
. SMD Software Upgrade	-	-	1,000.0	1,000.0
. Security Enhancements	-	-	500.0	500.0
. Information Retrieval and Reporting - Phase II	-	-	500.0	500.0
Sub Total Capital Projects in Conceptual Design	-	-	3,250.0	3,250.0
Non-Project Capital Spending	-	2,121.0	3,000.0	5,121.0
Capitalized Interest & Loan Fees	-	805.3	785.0	1,590.3
Total Capital Projects	23,147.6	21,768.4	20,000.0	64,915.9
Facilities Project	22,966.4	20,561.7	1,971.9	45,500.0

(1) Prior Year(s) spending above reflects only those projects with current and future year spending.

(2) Total project costs included above represent external and internal labor capital costs.

ISO NEW ENGLAND INC.
FERC COMPLIANCE FILING - 12/31/06
UNAMORTIZED COST OF CAPITAL EXPENDITURES

Description (a)	Unrecovered Costs			(e)	Tariff Schedule			
	Total (b)	Adjustments (c)	Adj. Total (d)		Total (f)	Schedule 1 (g)	Schedule 2 (h)	Schedule 3 (i)
2006 Items:								
Total 2006 Items - \$	\$ 43,531,101	\$ -	\$ 43,531,101		\$ 43,531,101	\$ 6,280,795	\$ 19,312,225	\$ 17,938,081
Total 2006 Items - %					100.00%	14.43%	44.36%	41.21%
2005 Items:								
Total 2005 Items - \$	\$ 34,597,245	\$ -	\$ 34,597,245		\$ 34,597,245	\$ 4,128,061	\$ 20,027,282	\$ 10,441,902
Total 2005 Items - %					100.00%	11.93%	57.89%	30.18%
2004 Items:								
Total 2004 Items - \$	\$ 12,244,048	\$ -	\$ 12,244,048		\$ 12,244,048	\$ 466,089	\$ 7,722,463	\$ 4,055,496
Total 2004 Items - %					100.00%	3.81%	63.07%	33.12%
2003 Items:								
Total 2003 Items - \$	\$ 2,815,167	\$ -	\$ 2,815,167		\$ 2,815,167	\$ 53,073	\$ 2,293,899	\$ 468,196
Total 2003 Items - %					100.00%	1.89%	81.48%	16.63%
2002 Items:								
Total 2002 Items - \$	\$ 432,802	\$ -	\$ 432,802		\$ 432,802	\$ 44,667	\$ 240,983	\$ 147,151
Total 2002 Items - %					100.00%	10.32%	55.68%	34.00%
2001 Items:								
Total 2001 Items - \$	\$ 37,384	\$ -	\$ 37,384		\$ 37,384	\$ 8,056	\$ 19,346	\$ 9,981
Total 2001 Items - %					100.00%	21.55%	51.75%	26.70%
2000 Items:								
Total 2000 Items - \$	\$ 17,993	\$ -	\$ 17,993		\$ 17,993	\$ 3,643	\$ 9,729	\$ 4,622
Total 2000 Items - %					100.00%	20.24%	54.07%	25.69%
Totals for 2000, 2001, 2002, 2003, 2004, 2005 and 2006 - \$	\$ 93,675,740	\$ -	\$ 93,675,740		\$ 93,675,740	\$ 10,984,385	\$ 49,625,926	\$ 33,065,430
1999 & Previous Items:								
Total 1999 Items - \$	\$ 8,176	\$ (8,176)	\$ -		\$ -	\$ -	\$ -	\$ -
Total 1999 Items - %					0.00%	0.00%	0.00%	0.00%
Total Unamortized Costs of Capital Expenditures - \$	\$ 93,683,916	\$ (8,176)	\$ 93,675,740		\$ 93,675,740	\$ 10,984,385	\$ 49,625,926	\$ 33,065,430
- %					100.00%	11.73%	52.98%	35.30%

ATTACHMENT 2

**New England Governors
and Utility Regulatory
and Related Agencies**

January 9, 2007

Connecticut

The Honorable M. Jodi Rell
State Capitol
210 Capitol Ave.
Hartford, CT 06106

Connecticut Department of Public Utility Control
10 Franklin Square
New Britain, CT 06051-2605

Maine

The Honorable John E. Baldacci
One State House Station
Rm. 236
Augusta, ME 04333-0001

Maine Public Utilities Commission
State House, Station 18
242 State Street
Augusta, ME 04333-0018

Massachusetts

The Honorable Deval Patrick
Office of the Governor
Rm. 360 State House
Boston, MA 02133

Massachusetts Department of Telecommunications
and Energy
One South Station
Boston, MA 02110

New Hampshire

The Honorable John H. Lynch
State House
25 Capitol Street
Concord, NH 03301

New Hampshire Public Utilities Commission
21 South Fruit Street
Suite 10
Concord, NH 03301-2429

Rhode Island

The Honorable Donald L. Carcieri
State House Room 115
Providence, RI 02903

Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Vermont

The Honorable James H. Douglas
109 State Street, Pavilion
Montpelier, VT 05609

Vermont Public Service Board
112 State Street, Drawer 20
Montpelier, VT 05620-2701

**New England Governors
and Utility Regulatory
and Related Agencies**

January 9, 2007

Anne C. George, President
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